

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Battle Creek Downtown Development Auth.	County Calhoun
Fiscal Year End June 30, 2006	Opinion Date November 1, 2006	Date Audit Report Submitted to State December 1, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

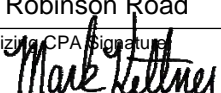
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	Single letter for the City of Battle Creek		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6507		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

**BATTLE CREEK DOWNTOWN
DEVELOPMENT AUTHORITY**
(A Component Unit of the
City of Battle Creek, Michigan)

Battle Creek, Michigan

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Battle Creek, Michigan)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

November 1, 2006

Board of Directors
Battle Creek Downtown Development Authority
City of Battle Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority, a component unit of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the ***Battle Creek Downtown Development Authority*** as of June 30, 2006, and the respective changes in its financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The continuing bond disclosures as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. The continuing bond disclosures have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BASIC FINANCIAL STATEMENTS

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	\$ 5,624,836	\$ 162,456	\$ 5,787,292
Investments	-	263,227	263,227
Accounts receivable	203,996	1,009,528	1,213,524
Interest receivable	52,707	5,469	58,176
Loans receivable, net:			
Due within one year	-	37,331	37,331
Due in more than one year	-	462,575	462,575
Total assets	5,881,539	1,940,586	7,822,125
Liabilities			
Account payable and accrued liabilities	15,758	478,540	494,298
Long-term liabilities -			
Due in more than one year	49,003,750	-	49,003,750
Total liabilities	49,019,508	478,540	49,498,048
Net assets			
Restricted for debt service	3,833,095	-	3,833,095
Restricted for loan commitments, minority lending and lending activity	-	1,462,046	1,462,046
Unrestricted (deficit)	(46,971,064)	-	(46,971,064)
Total net assets (deficit)	\$ (43,137,969)	\$ 1,462,046	\$ (41,675,923)

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Activities
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue</u>
Governmental activities:			
Community development	\$ 2,404,889	\$ 5,374	\$ (2,399,515)
Interest on long-term debt	<u>2,856,619</u>	<u>-</u>	<u>(2,856,619)</u>
Total governmental activities	5,261,508	5,374	(5,256,134)
Business-type activities:			
Revolving loans (recoveries)	<u>66,021</u>	<u>21,746</u>	<u>(44,275)</u>
Totals	<u><u>\$ 5,327,529</u></u>	<u><u>\$ 27,120</u></u>	<u><u>\$ (5,300,409)</u></u>

Continued...

The accompanying notes are an integral part of these financial statements

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Activities (Concluded)
For the Year Ended June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue	\$ (5,256,134)	\$ (44,275)	\$ (5,300,409)
General revenues:			
Property taxes	4,915,652	-	4,915,652
Unrestricted investment earnings	112,891	-	112,891
Total general revenues	5,028,543	-	5,028,543
Change in net assets	(227,591)	(44,275)	(271,866)
Net assets (deficit), beginning of year	(42,910,378)	1,506,321	(41,404,057)
Net assets (deficit), end of year	<u>\$ (43,137,969)</u>	<u>\$ 1,462,046</u>	<u>\$ (41,675,923)</u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
Assets			
Pooled cash and investments	\$ 5,609,078	\$ 15,758	\$ 5,624,836
Accounts receivable	203,996	-	203,996
Interest receivable	52,707	-	52,707
	<u>52,707</u>	<u>-</u>	<u>52,707</u>
Total assets	<u><u>\$ 5,865,781</u></u>	<u><u>\$ 15,758</u></u>	<u><u>\$ 5,881,539</u></u>
Liabilities			
Accounts payable	<u>\$ -</u>	<u>\$ 15,758</u>	<u>\$ 15,758</u>
Fund balances			
Reserved for debt service	3,833,095	-	3,833,095
Unreserved, undesignated	2,032,686	-	2,032,686
	<u>2,032,686</u>	<u>-</u>	<u>2,032,686</u>
Total fund balances	<u>5,865,781</u>	<u>-</u>	<u>5,865,781</u>
Total liabilities and fund balance	<u><u>\$ 5,865,781</u></u>	<u><u>\$ 15,758</u></u>	<u><u>\$ 5,881,539</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 5,865,781
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Amounts reported for governmental activities in the statement of net assets
are different because:

Certain liabilities, such as bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct - bonds payable	(53,790,000)
Add - unamortized bond issuance costs	1,187,606
Add - unamortized deferred loss on refunding	<u>3,598,644</u>

Net assets (deficit) of governmental activitie	<u><u>\$ (43,137,969)</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Pipeline Bonds Debt Service</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 4,915,652	\$ -	\$ 4,915,652
Interest	112,640	251	112,891
Other	5,374	-	5,374
	<u>5,033,666</u>	<u>251</u>	<u>5,033,917</u>
Total revenues			
Expenditures			
Community development	2,404,889	-	2,404,889
Debt service:			
Interest and fiscal charges	-	2,514,744	2,514,744
	<u>2,404,889</u>	<u>2,514,744</u>	<u>4,919,633</u>
Total expenditures			
Revenue over (under) expenditures	<u>2,628,777</u>	<u>(2,514,493)</u>	<u>114,284</u>
Other financing sources (uses)			
Transfers in	-	2,509,493	2,509,493
Transfers out	(2,509,493)	-	(2,509,493)
	<u>(2,509,493)</u>	<u>2,509,493</u>	<u>-</u>
Total other financing sources (uses)			
Net change in fund balances	119,284	(5,000)	114,284
Fund balances, beginning of year	<u>5,746,497</u>	<u>5,000</u>	<u>5,751,497</u>
Fund balances, end of year	<u><u>\$ 5,865,781</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,865,781</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 114,284
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Amounts reported for governmental activities in the statement of activities
are different because:

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Less - amortization of bond issuance costs and deferred loss on refunding	<u>(341,875)</u>
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Change in net assets of governmental activities	<u><u>\$ (227,591)</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Budget			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 4,234,744	\$ 5,227,503	\$ 4,915,652	\$ (311,851)
Interest	20,000	100,000	112,640	12,640
Other	-	-	5,374	5,374
Total revenues	4,254,744	5,327,503	5,033,666	(293,837)
Expenditures				
Community development	1,899,744	2,416,604	2,404,889	(11,715)
Revenues over expenditures	2,355,000	2,910,899	2,628,777	273,777
Other financing uses				
Transfers out	(1,855,000)	(1,855,000)	(2,509,493)	(654,493)
Net change in fund balance	500,000	1,055,899	119,284	(380,716)
Fund balance, beginning of year	5,746,497	5,746,497	5,746,497	-
Fund balance, end of year	\$ 6,246,497	\$ 6,802,396	\$ 5,865,781	\$ (380,716)

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Net Assets Revolving Loan Enterprise Fund June 30, 2006

Assets

Cash and cash equivalents	\$ 162,456
Investments	263,227
Accounts receivable	1,009,528
Interest receivable	5,469
Loans receivable, net:	
Due within one year	37,331
Due in more than one year	<u>462,575</u>
Total assets	1,940,586

Liabilities

Accounts payable	<u>478,540</u>
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Net assets

Restricted for loan commitments, minority lending and other lending activity	<u><u>\$ 1,462,046</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Fund For the Year Ended June 30, 2006

Operating revenue	
Charges for services	<u>\$ 8,433</u>
Operating expenses	
Professional services	34,421
Loan loss provision	<u>31,600</u>
Total operating expenses	<u>66,021</u>
Operating loss	(57,588)
Non-operating revenue	
Investment earnings	<u>13,313</u>
Change in net assets	(44,275)
Net assets, beginning of year	<u>1,506,321</u>
Net assets, end of year	<u><u>\$ 1,462,046</u></u>

The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Statement of Cash Flows

Enterprise Fund

For the Year Ended June 30, 2006

Cash flows from operating activities

Loans collected from borrowers	\$ 24,668
Interest and fees on loans	8,433
Loans made to borrowers	(111,317)
Administrative and other expenses paid	<u>(135)</u>

Net cash used by operating activities	<u>(78,351)</u>
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Cash flows from investing activities

Purchase of investments	(49,742)
Proceeds from sales and redemption of investments	44,853
Investment income received	<u>11,472</u>

Net cash provided by investing activities	<u>6,583</u>
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Net decrease in cash and cash equivalents	(71,768)
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Cash and cash equivalents, beginning of year	<u>234,224</u>
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Cash and cash equivalents, end of year	<u><u>\$ 162,456</u></u>
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Reconciliation of operating loss to net cash used by operating activities

Operating loss	\$ (57,588)
Adjustments to reconcile operating loss to net cash from operating activities:	
Changes in assets and liabilities:	
Loans receivable	(287,863)
Accounts receivable	34,286
Accounts payable	<u>232,814</u>

Net cash used by operating activities	<u><u>\$ (78,351)</u></u>
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The accompanying notes are an integral part of these financial statements.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – These financial statements present the activities of the Battle Creek Downtown Development Authority (the “Authority”). The Authority was established March 6, 1979 pursuant to Public Act 197 of 1975. The primary purpose of the Authority is to revitalize and encourage economic activity in the downtown business district. The Authority’s activities are primarily funded through tax increment financing, bonded debt and revolving loans.

The Authority is a component unit of the City of Battle Creek, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements – The statements of net assets and activities display information about the financial activities of the Authority. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the Authority’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for revolving loans.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the Authority and for each function of the Authority’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The Authority reports the following major governmental funds:

- General fund
- Pipeline bonds debt service fund

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for, and the payment of, interest and principal on bonded debt.

The *revolving loan enterprise fund* (major enterprise fund) is used to account for loans made to local businesses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector standards.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

Capital Assets – The Authority has no capital assets for which it holds legal ownership. Infrastructure assets (e.g., roads, bridges, curbs, sidewalks, storm sewers and similar items), along with water and wastewater subsystems, constructed by the Authority are not recorded as the Authority's capital assets, even though the Authority may be obligated to repay the debt issued to finance the related projects. Such capital assets become the property of the City when they are placed into service and, accordingly, are reported in the City's capital assets.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Long-term Obligations – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budgetary Information – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Authority follows the City budget process in establishing the budgetary data reflected in the financial statements:

- The Authority submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments were not material in relation to the original appropriations.

Transfers out exceed budgetary appropriations by \$654,493.

2. CASH AND INVESTMENTS

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition, and deposits in the City's cash and investment pool.

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Authority and City's investment policies follow the State's guidelines.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

At year-end, the carrying amount of the Authority's deposits in the City's internal cash management pool was \$5,624,836. Because it is infeasible to allocate risk to individual component units or pool participants, aggregate cash and investment categorizations are presented in the City's basic financial statements.

The Authority's remaining deposits and investments, which are entirely recorded in the Revolving Loan Fund (business-type activity), include the following:

Deposits	\$ 162,456
Investments	<u>263,227</u>
Total	<u>\$ 425,683</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$162,456. Of that amount, \$62,456 was uninsured and uncollateralized.

Investments

At year end, the Revolving Loan Fund's investment balances were as follows:

	<u>Fair Value</u>
U.S. treasuries	\$ 100,902
U.S. agencies	146,891
Money market funds	<u>15,344</u>
Total investments	<u>\$ 263,227</u>

Credit Risk. All of the investments in debt securities of U.S. agencies are rated AAA by both Moody's Investor Service and Standard & Poor's. The money market funds were rated Aa3 by Moody's and AA- by Standard & Poor's.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Revolving Loan Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Revolving Loan Fund investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the fund's name.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Concentration of Credit Risk. At June 30, 2006, the investment portfolio of U.S. agencies was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal Farm Credit Bank	64.4%
	Federal Home Loan Bank	33.6%

Interest Rate Risk. As of June 30, 2006, maturities of the Revolving Loan Fund investments in debt securities were as follows:

		<u>Investment Maturities (Fair Value by Years)</u>	
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. treasuries	\$ 100,902	\$ -	\$ 100,902
U.S. agencies	146,891	49,625	97,266
	<u>\$ 247,793</u>	<u>\$ 49,625</u>	<u>\$ 198,168</u>

None of the U.S. agencies securities is callable.

3. LOANS RECEIVABLE

The details of loans receivable outstanding as of June 30, 2006 are as follows:

Total loans outstanding	\$ 629,506
Less allowance for loan losses	<u>(129,600)</u>
Net loans outstanding	<u>\$ 499,906</u>

Of this amount, \$37,331 is expected to be collected within one year.

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

4. LONG-TERM DEBT

Following is a summary of the Authority's debt outstanding as of June 30, 2006:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Outstanding Principal</u>
Taxable Adjustable Rate Revenue Bonds			
2004 Development Refunding	Variable	05/01/08	<u>\$ 53,790,000</u>

In addition to the above obligation, the Authority has committed to contribute toward the repayment of two City of Battle Creek bond issues. Although not contractually obligated, the Authority intends to pay debt service on these obligations inasmuch as the projects financed by these bonds are within the boundaries of the Downtown Development Authority district. The Authority's share of the outstanding principal on these bonds as of June 30, 2006, was \$2,729,674, with interest rates ranging from 2.5% to 5.125%, and maturing through 2012.

Annual debt service requirements to maturity for the Authority's debt, including the City of Battle Creek bond issues that the Authority intends to service, are as follows:

Year Ending <u>June 30,</u>	<u>Authority Obligation</u>		<u>City Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ -	\$ 2,689,500	\$ 405,686	\$ 220,162
2008	53,790,000	2,438,872	425,927	200,189
2009	-	-	449,795	180,727
2010	-	-	473,577	158,682
2011	-	-	500,829	136,211
2012	-	-	473,860	112,292
Total	<u>\$53,790,000</u>	<u>\$ 5,128,372</u>	<u>\$ 2,729,674</u>	<u>\$ 1,008,263</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

Deceased debt. In prior years, the City and DDA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, which will be called on May 1, 2008. Accordingly, the trust account assets and the liability for the defeased bonds are not included in accompanying financial statements. At June 30, 2006, the outstanding defeased bonds amounted to \$42,095,000.

Interest Rate Swap. During fiscal 2005, the City/DDA entered into a forward starting interest rate swap agreement (the "Swap") to modify interest rates on future outstanding debt. Beginning May 1, 2008, the Swap will be used to hedge \$55,265,000 of the Downtown Development Taxable Adjustable Rate Refunding Bonds, Series 2004. The stated maturity date of the Swap is May 1, 2022.

Under the terms of the Swap, the City/DDA will owe interest calculated at a fixed rate of 4.598% to the counterparty to the agreement, Goldman Sachs. In return, the counterparty will owe the City/DDA interest based on a variable rate equal to the Bond Market Association (BMA) index rate. Only the net difference in interest amounts will actually be exchanged between the parties. The City/DDA will continue to pay interest to the bondholders at the variable rate provided by the Bonds, and during the term of the Swap, will pay the difference between the fixed rate on the Swap and the BMA index rate.

To further hedge its position, the City/DDA purchased an interest rate cap and floor policy from Merrill Lynch Capital Services to protect against significant fluctuations in market interest rates.

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Adjustable rate refunding	\$53,790,000	\$ -	\$ -	\$ 53,790,000	\$ -
Add (deduct) deferred amounts:					
For issuance costs	(1,272,435)	-	84,829	(1,187,606)	-
On refunding	<u>(3,855,690)</u>	<u>-</u>	<u>257,046</u>	<u>(3,598,644)</u>	<u>-</u>
	<u>\$48,661,875</u>	<u>\$ -</u>	<u>\$ 341,875</u>	<u>\$ 49,003,750</u>	<u>\$ -</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY

Notes To Basic Financial Statements

5. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Battle Creek bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Calhoun. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Downtown Development Authority district to the extent that the current taxable value exceeds the base year taxable value. The base year of initial properties was 1979, the inception date of the Authority. The base year on other properties is determined by the date of entry into the district. The Authority district was expanded in 1985, 1987 and 1993, and was reduced in 2000.

The taxable values for the 2005 levy are summarized below:

	<u>Base Year</u>	<u>Increment</u>	<u>Total</u>
Real property	\$ 59,176,123	\$ 68,663,878	\$ 127,840,001
Personal property	47,210,228	99,444,763	146,654,991
P.A. 255 property	955,425	(955,425)	-
P.A. 198 property	27,103,800	20,055,344	47,159,144
P.A. 189 property	306,470	368,657	675,127
P.A. 147 property	-	15,400	15,400

* * * * *

SUPPLEMENTARY INFORMATION

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Continuing Bond Disclosures (Unaudited)

1. State Equalized Value (SEV) and Taxable Value (TV) of Ad Valorem Tax Roll

Assessed Value as of December 31	Year of Tax Levy	Fiscal Year Ended June 30	Ad Valorem SEV		Ad Valorem TV	
			Amount	% Change	Amount	% Change
2004	2005	2006	\$ 290,842,381	-3.81%	\$ 274,494,992	-4.26%
2003	2004	2005	302,371,276	0.56%	286,708,140	0.20%
2002	2003	2004	300,679,010	14.03%	286,125,661	13.76%
2001	2002	2003	263,688,054	-2.40%	251,509,977	-2.48%
2000	2001	2002	270,159,327	8.99%	257,903,342	12.40%
1999	2000	2001	247,870,250	-8.74%	229,459,885	-13.66%
1998	1999	2000	271,594,550	14.64%	265,771,050	14.11%
1997	1998	1999	236,918,025	-2.24%	232,905,000	-2.84%
1996	1997	1998	242,345,100	9.39%	239,723,350	8.97%

2. Taxable Value (TV) of Ad Valorem Tax Roll by Use

Fiscal Year Ended June 30	Homestead			Non-Homestead				Total
	Residential	Agriculture	Commercial	Residential	Agriculture	Commercial	Industrial	
2006	\$9,018,219	\$76,412	\$342,696	\$5,864,652	\$ -	\$68,556,358	\$ 190,636,655	\$ 274,494,992
2005	8,864,820	76,412	342,827	5,350,551	-	71,985,512	200,106,018	286,726,140
2004	8,392,465	74,695	281,374	5,359,009	-	68,483,541	203,534,577	286,125,661
2003	7,883,617	73,592	237,619	5,153,765	-	66,149,317	172,012,067	251,509,977
2002	7,362,058	71,311	269,052	4,738,687	-	68,358,646	177,103,588	257,903,342
2001	6,953,534	-	-	4,512,716	69,100	65,049,350	152,875,185	229,459,885
2000	6,953,534	-	-	4,133,866	124,100	58,701,700	195,857,850	265,771,050
1999	6,423,899	-	-	4,602,723	66,750	56,741,378	165,070,250	232,905,000
1998	6,155,984	-	-	4,348,616	65,000	51,701,650	177,452,100	239,723,350

3. Taxable Value (TV) of Ad Valorem Tax Roll by Class

Fiscal Year Ended June 30			
	Real	Personal	Total
2006	\$ 127,840,001	\$ 146,654,991	\$ 274,494,992
2005	128,572,054	158,136,086	286,708,140
2004	126,908,701	159,216,960	286,125,661
2003	112,590,677	138,919,300	251,509,977
2002	112,268,742	145,634,600	257,903,342
2001	97,508,785	131,951,100	229,459,885
2000	103,120,900	162,650,150	265,771,050
1999	89,277,600	143,627,400	232,905,000
1998	86,575,550	153,147,800	239,723,350

4. Taxable Value (TV) of the Industrial Facilities Tax Roll by Class

Fiscal Year Ended June 30			
	Real	Personal	Total
2006	\$ 15,700,842	\$ 31,458,252	\$ 47,159,144
2005	14,766,215	29,029,847	43,796,062
2004	14,192,322	23,798,132	37,990,454
2003	21,376,963	53,450,900	74,827,863
2002	21,437,436	57,760,000	79,197,436
2001	32,852,600	83,652,400	116,505,000
2000	57,015,950	129,337,200	186,353,150
1999	74,460,175	141,754,300	216,214,475
1998	69,725,825	129,625,600	199,351,425

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Continuing Bond Disclosures (Unaudited)

5. Property Tax Collections

Fiscal Year Ended June 30		Taxes Levied	Collections to March 1	% Collected
2006	(1)	\$ 3,880,299	\$ 3,366,709	86.76%
2005		6,876,297	6,802,014	98.92%
2004		6,364,212	6,364,212	100.00%
2003		6,068,878	6,053,257	99.74%
2002		6,434,645	6,415,791	99.71%
2001		6,703,618	6,638,605	99.03%
2000		7,470,631	7,446,748	99.68%
1999		8,166,905	7,896,259	96.69%
1998		8,295,052	8,269,905	99.70%
1997		7,610,883	7,601,901	99.88%

(1) Levied and collected amounts are lower than prior year because of agricultural renaissance zone abatements.

6. Captured Property Tax Rates
(per \$1,000 of value)

Fiscal Year Ended June 30	(1) City	(2) Schools	(1) State Education Tax	(3) County	Willard Library
2006	13.9210	18.0000	6.0000	5.3744	-
2005	13.0000	18.0000	6.0000	5.3744	2.00
2004	13.0000	18.0000	5.0000	5.3744	-
2003	13.0000	18.0000	6.0000	-	-
2002	13.0000	18.0000	6.0000	-	-
2001	13.0000	18.0000	6.0000	-	-
2000	12.5970	18.0000	6.0000	-	-
1999	12.7290	18.0000	6.0000	-	-
1998	12.8840	18.0000	6.0000	-	-

(1) Levied on homestead and non-homestead properties.

(2) Levied on non-homestead properties only.

(3) Beginning in fiscal year 2003, the DDA captures 100% of the tax increment in excess of the 2003 taxable value.

7. Taxable Value of Twenty Largest Ad Valorem Taxpayers
(Fiscal Year Ended June 30, 2006)

Taxpayer	Product or Service	Taxable Value	% of Taxable Value
1 Kellogg Company	Breakfast Foods	\$ 117,683,171	42.87%
2 Kraft Foods Inc.	Breakfast Foods	38,369,549	13.98%
3 Ralcorp Holdings Inc.	Breakfast Foods	17,123,381	6.24%
4 Semco Energy Inc.	Natural gas utility	9,677,339	3.53%
5 Northe Pointe	Office building	4,491,579	1.64%
6 Cello-Foil Products Inc.	Packaging	3,949,988	1.44%
7 Behnke Warehousing Inc.	Warehousing	2,870,090	1.05%
8 Graham Group, The	Medical office building	2,383,514	0.87%
9 BC Equities LTD	Office building	1,908,665	0.70%
10 Federated Publication	Newspaper	1,788,025	0.65%
11 Consumers Energy Co.	Electric utility	1,783,759	0.65%
12 Lake Jackson Realty LLC	Office building	1,485,190	0.54%
13 Somerset Capital Group LTD	Leased Equipment	1,389,373	0.51%
14 Southwestern Michigan Rehab Hospital	Health Care	1,204,700	0.44%
15 RHS LLC	Hotel	1,187,892	0.43%
16 WAG-BC LLC	Retail Store	1,025,086	0.37%
17 BC Tower LLC	Office building	854,290	0.31%
18 CIT Communications Finance Corp.	Leased Equipment	843,232	0.31%
19 Champion Ford	Auto Dealer	836,789	0.30%
20 Heritage Chevrolet Inc.	Auto Dealer	783,321	0.29%
		<u>\$ 146,735,638</u>	<u>77.12%</u>

BATTLE CREEK DOWNTOWN DEVELOPMENT AUTHORITY
Continuing Bond Disclosures (Unaudited)

8. Taxable Value of Four Largest IFT Taxpayers
(Fiscal Year Ended June 30, 2006)

<u>Taxpayer</u>	<u>Product or Service</u>	<u>Taxable Value</u>	<u>% of Taxable Value</u>
¹ Kellogg Company	Breakfast foods	\$ 29,328,990	62.19%
² Kraft Foods, Post Division	Breakfast foods	15,505,056	32.88%
³ Cello-Foil Products, Inc.	Packaging	2,221,548	4.71%
⁴ Franklin Iron & Metal	Process scrap metal	103,500	0.22%
		<u>\$ 47,055,594</u>	<u>100.00%</u>